USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Voluntary Report - public distribution

Date: 9/24/2004

GAIN Report Number: BR4622

Brazil

Oilseeds and Products

Soybeans Producers see Decreasing Margins in Brazil

2004

Approved by:
Ron Verdonk, Acting Agricultural Counselor
U.S. Embassy

Prepared by:
Elizabeth Mello, Agricultural Attaché

Report Highlights:
Soybean Rust and weather problems may threaten producer margins in Brazil in MY 2004/05.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Brasilia [BR1]
[BR]

As Brazilian soybean farmers approach the 2004/05 planting season, decreasing profit margins have begun to concern producers, who are experiencing higher costs and lower international prices, which are now combined with unfavorable weather forecasts calling for irregular and poorly distributed rains.

Weather notwithstanding, farmers at the moment are dealing with a shortage of capital. Since last year's harvest, costs of production for the main crops including soybeans, corn, and cotton have increased 15 to 20 percent in western Paraná, with greater increases reported in Mato Grosso and western Bahia. The average production cost per 60-kilo sack of soybeans in July of 2003 in the state of Paraná was estimated at $8.45, which has since increased to $9.75 for the month of July of this year. The cost of fertilizers has increased 20% since this time last year. Paraná state's department of agriculture (DERAL) estimates producer margins, which averaged $44 a sack last year, will decrease to $36 per sack for MY 2004/05. The total cost per hectare projected by DERAL for MY 2004/05, including labor, inputs, and transportation, is expected to rise from $438 per hectare to $507 (see chart).

Soybeans: Rising Production Costs
(Cost of Production in western Paraná* state per hectare in USD)

	2003/04	2004/05	Increase
Agrochemicals	142.97	155.28	9%
Fertilizer	61.49	73.65	20%
Machinery Operations	38.24	39.01	2%
Seed	19.59	30.94	58%
Interest	14.38	16.31	13%
Transportation	10.98	12.57	14%
Insurance	8.53	9.10	7%
Receiving/Drying/Cleaning/Storage	8.02	8.02	0%
Technical Assistance	5.39	6.15	14%
General Expenses	5.29	6.03	14%
Maintenance	1.59	1.73	9%
Temporary Labor	.71	.87	2%

Source: DERAL *Cascavel, Toledo

Soybean Rust

Soybean rust, a fungus that attacks soybeans, was detected recently in three municipalities located Southeast of Belem and about 500 kilometers south of the equator in the Amazonian state of Pará. Embrapa (Brazilian equivalent to USDA-ARS) researchers discovered rust last year in Southeastern Para but this is the first detection in the Northeastern portion of the state. According to Embrapa scientists, the climate of Pará, like most of Brazil, is perfect for the spread of soybean rust since it thrives in high temperatures and humidity.

In 2004 Soybean rust is thought to have reached over 240 municipalities. Though rust has reached the western portion of Pará it has not yet been detected around the Santarem area where soybean production is expanding rapidly. However, many believe that given the history of its rapid spread in Brazil and the ideal conditions for spread in the Amazon, it is only a matter of time before it reaches Santarem. Once this happens, spread to the soybean plantations of the northern-most state of Roraima is almost inevitable.

Detection of the fungus in Pará is by itself a great concern to U.S. soybean producers since trade winds north of the equator and hurricanes can carry it to the soybean fields of the Southeastern United States. Once Asian rust reaches Santarem and then Roraima it may be inevitable that it will arrive in the United States. Though there have been rumors that soybean rust has reached as far north as Roraima, Embrapa and APHIS cannot confirm this.

Meanwhile, Embrapa estimates the 2003/04 crop loss at 4.5 million tons, a financial loss of over US$ 2 billion (see chart below), including costs for chemical applications to combat rust. As the fungus spread, it became necessary for farmers to increase the amount of fungicide used. A shortage of fungicide on the market increased its asking price between 50 and 90 percent in the first three months of the 2004. The fungicide, which cost $40 per hectare per application in January, shot up to between $60-75 a hectare by the end of March. Embrapa estimates that more than 15 million hectares of the 2003/04 crop recorded incidences of the disease.

In an effort to lower agrochemical costs, the soybean industry has been pressuring the government for the speedy registration of more fungicides to combat soybean rust. To register any fungicide for use in Brazil, the industry must go through three government entities. The request is filed with the Ministry of Agriculture, but also goes to the Ministry of Science for toxicological studies and the Ministry of the Environment for environmental impact studies. Since February, the number of fungicides approved by the Brazilian government for use has risen from 14 to 19, and approximately 15 to 20 more products are waiting for government approval.

Brazil's Losses due to Asian Rust
(1,000 tons and 1 million U.S. dollars)

	2001/02	2002/03	2003/04
Production Loss	570	3,350	4,590
Financial Loss	125	734	1,225
Agrochemical Costs	-	442	860
Total Financial Loss	**$125**	**$1,176.4**	**$2,085**

Source: Embrapa Soja

Although farmers are expected to take a more preventative approach in the upcoming 2004/04 MY, losses due to soybean rust are likely to match or surpass those of MY 2003/04. The demand for fungicide for soybeans in Brazil could reach 26 million liters this year, which would allow for two applications per hectare. Last year 16 million liters were used.